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STATE FOR NEA/ELA
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SUBJECT: LEBANON: GOL RESUMES COLLECTING GAS EXCISE TAX (ECONOMIC
WEEK IN REVIEW, OCTOBER 27 - NOVEMBER 2, 2008)

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GOL RESUMES COLLECTING
GAS EXCISE TAX

¶1. (SBU) On October 30, the GOL resumed the collection of gasoline excise taxes, suspended while oil prices surged, following the recent fall in international oil prices. Because the tax fluctuates based on the price of oil, a continued price drop will bring in much needed additional revenues to the GOL, helping reduce the deficit. Reinstating the gas excise tax was one of the IMF's Emergency Post Conflict Assistance (EPCA) -- as well as USG -- benchmarks for the disbursement of Paris III pledged budgetary support in 2007, but with the hike in oil prices, the government chose to forego such a measure for political and social considerations. The current collection level would not meet the EPCA condition, though it will bring some improvement in government finances.

MINISTRY OF ECONOMY
ELIMINATES WHEAT SUBSIDY

¶2. (SBU) Following a meeting on October 31 between the Minister of Economy and Trade Mohammad Safadi and representatives of mills and bakeries, the Ministry decided to cancel its wheat subsidy completely. According to the head of the Directorate of Sugar Beets and Grains at the Ministry of Economy and Trade (MOET) Claire Amm, the subsidy had been implemented when the international price of one ton of wheat exceeded \$210, whereas it is currently below \$200. In addition to this, the decrease in the prices of fuel makes the subsidy unjustified. Amm noted that bakeries and the General Labor Confederation had been lobbying the MOET to eliminate the subsidy.

MARONITE CHURCH INVOLVED IN
ECONOMIC GROWTH AND JOB CREATION

¶3. (SBU) Former Finance Minister Jihad Azour told us he is setting up a \$50-100 million investment fund for the Maronite Church to invest in SMEs in Lebanon. Azour, who will chair the fund, is currently designing a strategy and assembling a team for this project. Azour also mentioned that he is working with the Maronite Church on other related initiatives to help mainly Christian companies in Lebanon and to promote job creation. Azour said he is occasionally helping PM Siniora on economic issues, and is part of Majority Leader Saad Hariri's advisory group on economic and social strategy. (Comment: Azour, a Maronite from north Lebanon and nephew of former Minister/MP Jean Obeid, still has political ambitions. End comment.)

ALPHA MOBILE OPERATOR
TO EXPAND ITS NETWORK

¶4. (U) The Ministry of Telecommunications (MOT) announced that cellular operator Alpha signed an eight million dollar contract to expand its network to accommodate 300,000 new users, as well as improve the quality and coverage of its network. Mobile operator MTC Touch has also completed a \$645,000 expansion of its network in the southern regions of Marjeyoun and Khiam.

INVESTMENT AND FINANCE CONFERENCE

¶5. (SBU) There will be a "Friends of Lebanon Conference for Investment and Finance" on November 20-21, 2008 in Beirut. The conference organizing firm has sent invitations to officials in the

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Gulf and other countries; PM Siniora and Central Bank Governor Salameh are inviting their counterparts. Siniora reportedly invited Egypt's PM while he was in Cairo last week. The French PM will be in Lebanon during this period with a business delegation. The French Embassy told us they were not pleased that this larger conference at which the French PM is supposed to participate has been arranged, apparently with GOL approval, to coincide with that visit.

LEBANON IS OIL-IMPORTER LEAST LIKELY
TO SUFFER FROM GLOBAL CRISIS

¶6. (U) According to regional investment bank EFG Hermes, Lebanon is the oil-importing economy least likely to suffer from falling global demand outside the Gulf Cooperation Council (GCC) countries, resulting from the global financial crisis. Lebanon's domestic demand growth will also not be as affected by rising inflation as in other oil-importing economies, as demand is expected to pick up in 2008 and 2009, due to perceptions that the political situation has improved. The current account balance is also expected to improve, benefiting from falling oil prices, EFG Hermes noted.

EIU LOWERS GROWTH FORECAST FOR 2009, EFFECT OF
GLOBAL CRISIS COULD BE FELT WHEN ISSUING BONDS

¶7. (U) In its first report since the worsening of the global financial crisis, the Economist Intelligence Unit (EIU) estimated Lebanon's real GDP growth at 4.2 percent in 2008, and revised downward its 2009 GDP forecast from 4.6 percent to 3.1 percent, due to the spillover from the economic slowdown and political uncertainty tied to the 2009 parliamentary elections. Meanwhile, the EIU expressed fears that the global liquidity freeze could increase pressure on the GOL, which needs both to turn over a large volume of local and foreign currency debt instruments on a regular basis, and to take on new debt to finance its budget deficit. Therefore, said the EIU, the global loss of confidence is likely to be felt when Lebanon returns to the Eurobond market with a new issue.

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